SAFEWAY STORES
INCORPORATED

ANNUAL REPORT

Year Ended December 31, 1954

LOARDS
9658.744
Sa176

Safeway's Record in Brief:

	1954	1953
SALES	$1,813,516,636	$1,751,819,708
Income from dividends, interest and other sources	226,002	283,199
Cost of merchandise — paid out to farmers and other suppliers of goods and expended for manufacturing and warehousing	1,531,502,208	1,484,147,500
Total operating and administrative expenses, other charges and provision for income and excess profits taxes	268,256,659	253,410,675
NET INCOME	13,983,771	14,544,732
Dividends to preferred stockholders	1,915,397	1,914,418
Net Profit applicable to common stock	12,068,374	12,630,314
NET PROFIT PER SHARE OF COMMON STOCK based on average number of shares outstanding during the year	3.52	4.31
Dividends to common stockholders	8,336,264	7,090,916
Dividends per share to common stockholders	2.40	2.40
Number of new stores opened during the year	44	16
Number of stores closed during the year	83	71
Number of stores in operation at end of year	1,998	2,037

President Lingan A. Warren's

ANNUAL REPORT

to the Stockholders
of Safeway Stores, Incorporated

Sales

A new sales record was set by your Company in 1954, total net sales of your Company and all subsidiaries consolidated being $1,813,516,636, an increase of $61,696,928, or 3.52% over the previous record made in 1953. Net sales in the United States, including sales of $17,230,422 by Salem Commodities, Incorporated were $1,655,308,433, an increase of $53,129,966 over the 1953 sales. Net sales of the Canadian subsidiaries (in Canadian dollars) were $158,208,203 in 1954 as compared with $149,641,241 in 1953.

Earnings and Balance Sheet Information

The net profit of your Company was slightly less than that earned in 1953. Net profit before provision for taxes on income of your Company and all subsidiaries included in the Condensed Statements of Profit and Loss was $28,830,832 in 1954. This compares with a net profit before income taxes in 1953 of $29,620,074. After providing for United States Federal Normal Income Tax and Surtax of $11,652,000 and Canadian taxes on income of $2,765,000, the net profit after taxes on income was $13,983,771 in 1954 as compared with $14,544,732 in 1953.

Consolidated net earnings of your Company and all subsidiaries applicable to the common stock, after payment of preferred dividends of $1,915,397 were equal to $3.52 per share on 3,428,295 shares, the average number of shares of common stock outstanding during 1954. This compares with $4.31 per share on the 2,928,159 average shares of common stock outstanding in 1953. The lower per share earnings for the common stock in 1954 can be attributed to the increase in outstanding shares caused by the conversion of 4½% Convertible Preferred Stock into common stock and to the shorter period of operation (52 weeks in 1954 as compared with 53 weeks in 1953). The earnings were also held down by your Company's decision to meet trading stamp competition head-on throughout its operating territory.

Dividend requirements on the 283,414 shares of 4% Cumulative Preferred Stock and 266,882 shares of 4.30% Convertible Preferred Stock outstanding at the end of the year were earned 6.13 times.

Dividends have been paid by your Company without interruption on all outstanding shares of common and preferred stocks since its incorporation in 1926.

Total net assets, total current assets and total current liabilities of your Company and all subsidiaries on a fully consolidated basis on December 31, 1954 are shown in the Condensed Statements of Financial Position bound with this Report. Excluding Canada Safeway Limited, Cortland Equipment Lessors, Incorporated, Salem Commodities, Incorporated and their subsidiaries, total current assets were $207,268,498, total current liabilities were $90,199,713, and the ratio of current assets to current liabilities was 2.30 to 1. On a fully consolidated basis, the total net assets were $167,487,613 and the ratio of current assets to current liabilities was 2.06 to 1.

Your Company's earnings, its annual sales to the public (exclusive of sales by its subsidiary Salem Commodities, Incorporated), the average number of retail stores in operation and the average weekly sales per store for the last ten years are shown in the charts and tables set out in this report. Also shown in these charts and tables are the capital and

Knowing of your interest in the Company's operations we take pleasure in sending you a copy of Safeway's Annual Report for the year 1954.

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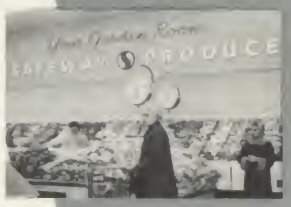
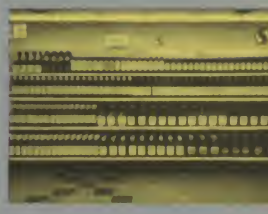
surplus of your Company and all subsidiaries, the net assets per share of preferred stock and the book value, dividends paid and earnings per share on the common stock over the last ten years. Book values are computed on the number of shares outstanding at the end of the year and earnings per share are based on the average number of shares outstanding during the year.



Convertible Preferred Stock and Debenture Financing

The Company's 4½% Convertible Preferred Stock was called for redemption on April 1, 1954. This call resulted in the conversion of all outstanding shares of the Convertible Preferred Stock into common stock.

On April 21, your Company issued and sold 267,000 shares of its new 4.30% Convertible Preferred Stock. The proceeds realized from this sale were applied to the payment of short term bank loans.

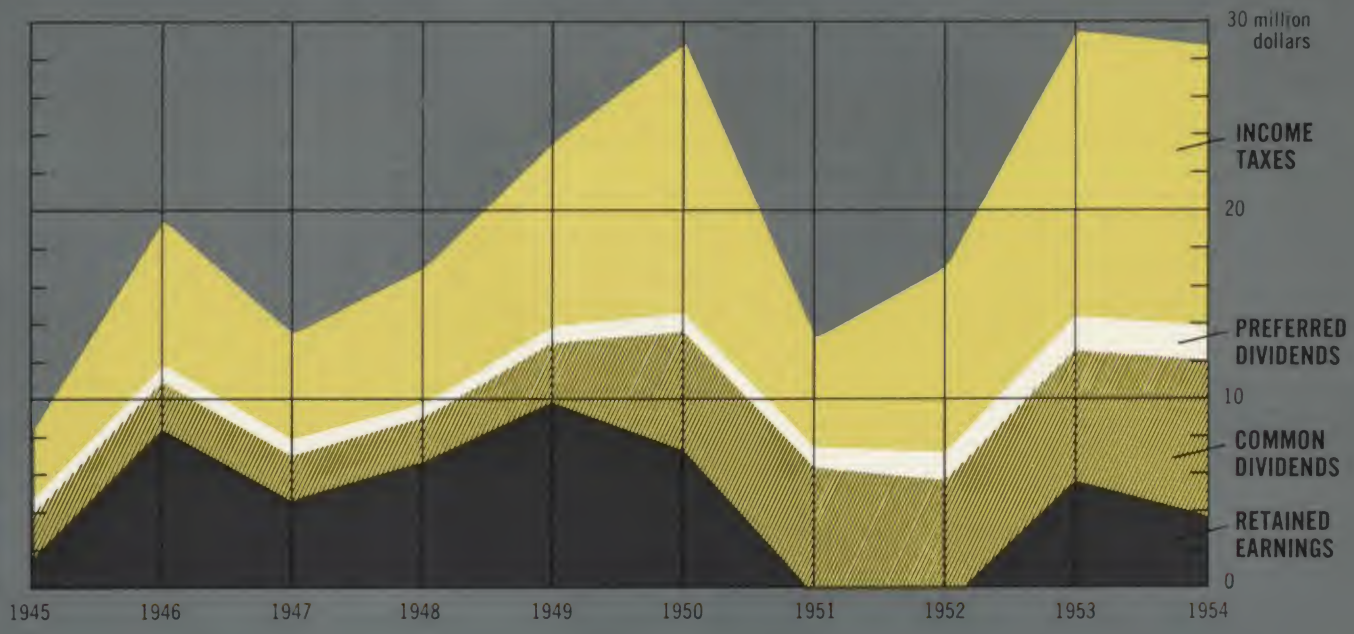


On November 1, 1954 Cortland Equipment Lessors, Incorporated paid its bank loans in full with the proceeds realized from the sale to the public of $75,000,000 in principal amount of serial and term debentures. The longer maturity and lower annual principal payments made possible by these debentures should benefit Cortland Equipment Lessors, Incorporated.

Construction Program

The year 1954 was an impressive one from the standpoint of our construction program. During the year we completed 44 new retail locations, 39 of which were situated in the United States and 5 in Canada. An additional 74 retail locations were under construction at the year end, all of which should be completed during the first half of 1955. In addition, plans and specifications were either prepared or in the process of preparation for 94 retail stores. Barring unforeseen delays, substantially all of these locations should be completed and in opera-

Earnings Before Income Taxes & Disposition of Net Income



tion before the end of 1955. The Company also owns or holds under option land sites for a substantial part of the retail stores which it plans to construct during 1956.

In order to better serve its retail stores, your Company constructed during 1954 a complete warehouse and distribution center at Denver, Colorado, an addition to its grocery warehouse at El Paso, Texas, a vegetable packaging plant at Indio, California and egg candling and packaging plants at Kearny, New Jersey and Vancouver, Canada. Existing buildings were also remodeled at Butte, Montana and Dallas, Texas for ice cream plants and at Washington, D. C. for a vegetable packaging plant. At the end of 1954 construction was in progress on distribution centers at Garland, to supply the Company's Dallas, Texas division and at Little Rock to supply its Arkansas stores. In addition,

Safeway Stores, Incorporated, and All Subsidiaries Consolidated

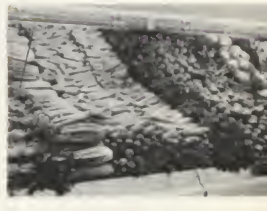
Capital and Surplus; Net Assets Per Share of Preferred Stock; Book Value, Dividends Paid and Net Earnings Per Share of Common Stock.

Year	*Capital and Surplus*	*Net Assets Per Share of Preferred Stock*	*Book Value Per Share of Common Stock**	*Dividends Paid Per Share of Common Stock**	*Net Earnings Per Share of Common Stock**
1945	$ 63,604,685	$311	$16.97	$1.00	$1.59
1946	71,901,081	359	20.18	1.00	4.29
1947	76,039,946	388	21.96	1.00	2.75
1948	81,972,829	428	24.44	1.00	3.50
1949	91,236,990	488	28.22	1.25	5.04
1950	115,215,274	371	29.76	2.40	5.20
1951	113,821,747	377	29.58	2.40	2.26
1952	132,273,480	266	29.03	2.40	2.01
1953	138,196,700	335	31.23	2.40	4.31
1954	167,487,613	304	32.32	2.40	3.52

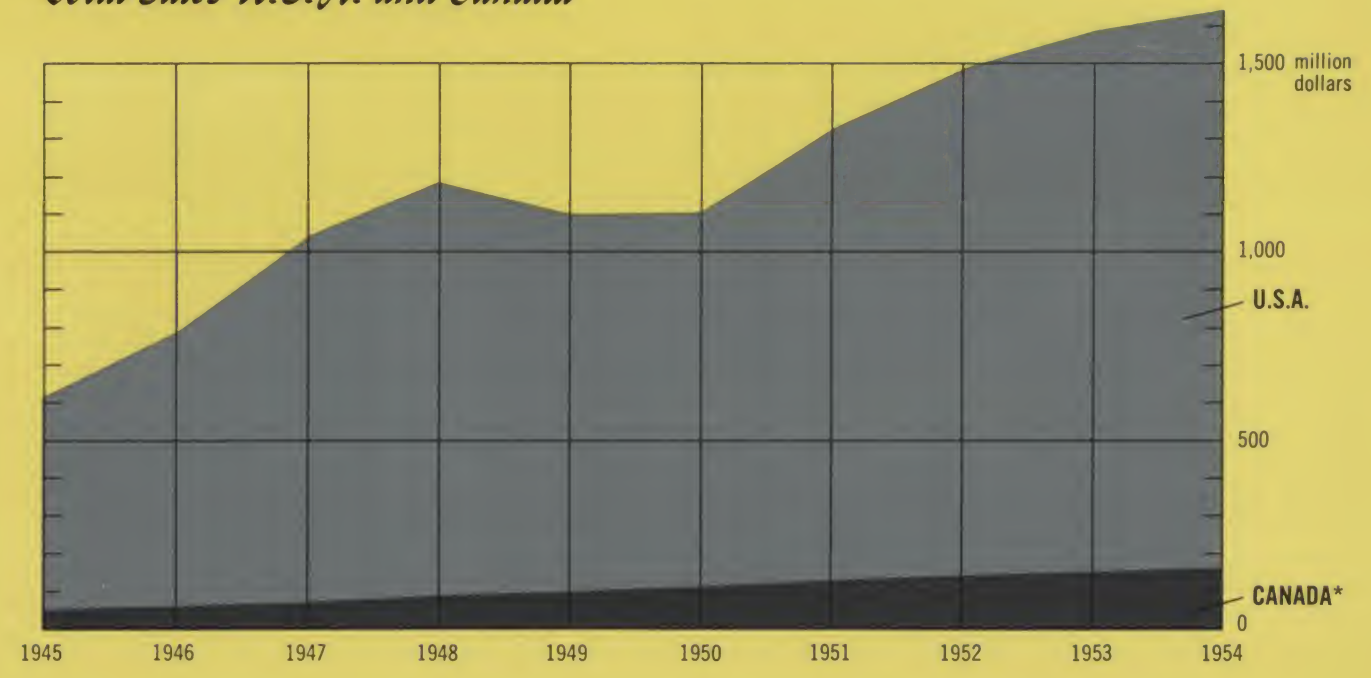
*Number of shares adjusted to reflect April 12, 1955 3-for-1 split.

enlargements were in process at the fluid milk plants in Denver, Colorado and Winnipeg, Canada, the ice cream plant at Denver, Colorado and the vegetable cannery at Tabor, Canada to meet increased demands for their products.

In order to provide for the increased sales in our retail stores, your Company has made definite plans to enlarge its distribution center facilities at El Paso, Texas and Oklahoma City, Oklahoma; to construct new distribution center facilities at Butte, Montana, Albuquerque, New Mexico, Omaha, Nebraska, Phoenix, Arizona, Portland, Oregon, Salt Lake City, Utah, Richmond, California and Seattle and Spokane, Washington; additional warehouse facilities at Los Angeles, California and Kansas City, Kansas; new fruit and vegetable packaging plants at Denver, Colorado, Kansas City, Kansas, Little Rock, Arkansas and



Total Sales U.S.A. and Canada



*in Canadian Dollars

Omaha, Nebraska; a new fluid milk plant at Little Rock, Arkansas; a new and larger fluid milk plant and ice cream plant at Los Angeles, California; new bread bakeries at Kearny, New Jersey and Oklahoma City, Oklahoma and new cake plants at Kearny, New Jersey and Oklahoma City, Oklahoma. The construction of these facilities will be spread over several years to avoid a peak in building expenditures during any one year.

Facilities at the End of the Year

During 1954 your Company opened 39 retail stores and closed 78 retail stores in the United States. During the same period 5 retail stores were opened and 5 retail stores closed in Canada. At the end of the year

Total Sales and Average Number of Stores in Operation 1945–1954

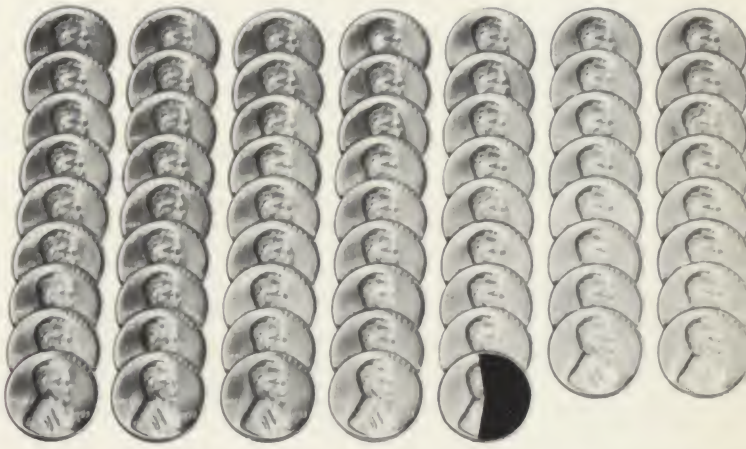
	Year	In Thousands of Dollars			Retail Stores	Average Weekly Sales Per Retail Store
		Retail Sales*	Wholesale Sales*	Total Sales*		
UNITED STATES	1945	$ 615,111	.....	$ 615,111	2,312	$ 5,116
	1946	785,574	.....	785,574	2,287	6,606
	1947	1,037,797	.....	1,037,797	2,260	8,831
	1948	1,178,702	.....	1,178,702	2,169	10,253
	1949	1,095,064	.....	1,095,064	2,066	10,193
	1950	1,100,852	.....	1,100,852	1,949	10,862
	1951	1,320,919	.....	1,320,919	1,967	12,914
	1952	1,481,712	$ 2,417	1,484,129	1,966	14,493
	1953	1,578,481	4,417	1,582,898	1,916	15,545
	1954	1,634,769	3,309	1,638,078	1,869	16,825
CANADA (In Canadian Dollars)	1945	$ 37,869	$17,190	$ 55,059	140	$ 5,202
	1946	42,568	19,623	62,191	141	5,806
	1947	51,594	22,469	74,063	141	7,037
	1948	67,247	21,730	88,977	139	9,128
	1949	75,207	22,900	98,107	136	10,634
	1950	84,063	24,477	108,540	135	11,975
	1951	102,131	27,316	129,447	137	14,336
	1952	111,751	28,450	140,201	138	15,590
	1953	118,781	30,860	149,641	138	16,193
	1954	126,635	31,573	158,208	139	17,569

*Exclusive of sales to the public by Salem Commodities, Incorporated.

there were 1,859 retail stores, 21 grocery warehouses, 20 produce warehouses, 11 meat warehouses, 15 bread bakeries, 4 cake bakeries, 2 cracker and cookie bakeries, a jam and jelly plant, a candy plant, 10 fluid milk plants, 9 ice cream plants and 6 coffee roasting plants, and a number of smaller plants and warehouses in operation in the United States and 139 retail stores, 12 grocery warehouses, 4 produce warehouses, 3 bakeries, a fluid milk plant, a coffee roasting plant, a fruit cannery, a vegetable cannery and a jam and jelly plant in operation in Canada.

The expense of closing vacated stores and the unamortized value of leasehold improvements on these stores have been charged against current earnings. Leasehold improvements on continuing stores are being charged off on an amortization basis.

What Happened to Safeway's 1954 Sales Dollar?



84.44¢ Paid out to Farmers and other Suppliers of Goods and Expended for

Trading Stamp Competition

Your Company's decision to meet head-on the growing wave of trading stamp and below cost competition held down the 1954 earnings of the retail stores. Your management firmly believes that this action was required for the protection of its business and that it will react to the benefit of the Company and its stockholders by checking the spread of such competition. This unfair and uneconomical competition reached a peak in Denver, Colorado, spread from there to Texas and then into Oklahoma, Utah, Idaho, Kansas and Missouri. Safeway's merchandising policy requires its retail stores to meet the net price of these competitors after making allowance for the cost of the trading stamps given their customers. Safeway sees no place for trading stamps costing the merchant from 2% to 3% of sales in an industry that usually operates on a net profit of less than 1½%. Safeway's decision to meet this competition has had effective results in Colorado and Texas and the Company is hopeful that it will lead to a discontinuance of this type of uneconomical selling in other areas. A return to normal competitive practices in those areas should result in a marked improvement in Safeway's earnings.

Manufacturing and Warehousing

7.84¢ Paid out in Salaries, Wages and Bonuses

4.75¢ Paid out for Operating Supplies and Other Expenses

1.42¢ Paid out for Local, State and Federal Taxes

.77¢ Profit for Stockholders and Surplus

.72¢ Set aside to cover Depreciation

.06¢ Paid out as Compensation to Elected Officers

Employee Relations

Excellent relations existed between your Company, its employees and their union representatives during 1954. No serious labor controversies or work stoppages took place during the year and none existed at the year end.

Employee Benefits

Liberal group insurance, retirement and profit-sharing programs are available to the employees of your Company. Group insurance, with life, hospital, surgical, polio, accident and sickness coverage for employees and dependents is provided at reasonable cost. This insurance is carried by 33,268 or 89% of the eligible employees in the United States and 2,614 or 93% of the eligible employees in Canada. Total insurance in force at the end of the year was $763,259,800 in the United States and $70,736,200 in Canada.

At the year end 9,067 employees, or 92% of those eligible were members of the United States and Canadian Employee Retirement Plans and retirement benefits were being paid to 398 retired employees

under the plans. Your Company's 1954 contributions to these plans were $2,295,938 in the United States and $238,553 in Canada, or approximately 5% of the payroll of participating employees. The United States Retirement Plan has been amended to permit members who continue working after reaching age 65 to contribute to the Plan and to accrue retirement benefits on compensation earned and to increase the compensation brackets for employee contributions in order to adjust the Plan to the increased base for Social Security benefits.

Payments into the Profit Sharing Plan based on 1954 compensation of participating employees totalled $3,205,516. This represents deferred compensation earned by the participants and is fully deductible for tax purposes by the Company.

Employees as Citizens

Your Company encourages its employees to take an active part in community affairs. A great many are members of Rotary, Lions, Exchange, Kiwanis and other service clubs; many serve on local civic bodies, city councils, school boards and parent-teachers' groups; many are active in church affairs—all in all, your Company may well take pride in the number of its employees who exemplify good citizenship in their respective communities.

I wish to again express my sincere appreciation for the help and cooperation received from stockholders, employees and directors.

Lingan A. Warren

President

Shop SAFEWAY

What's Being Done to Get More People to Shop Safeway

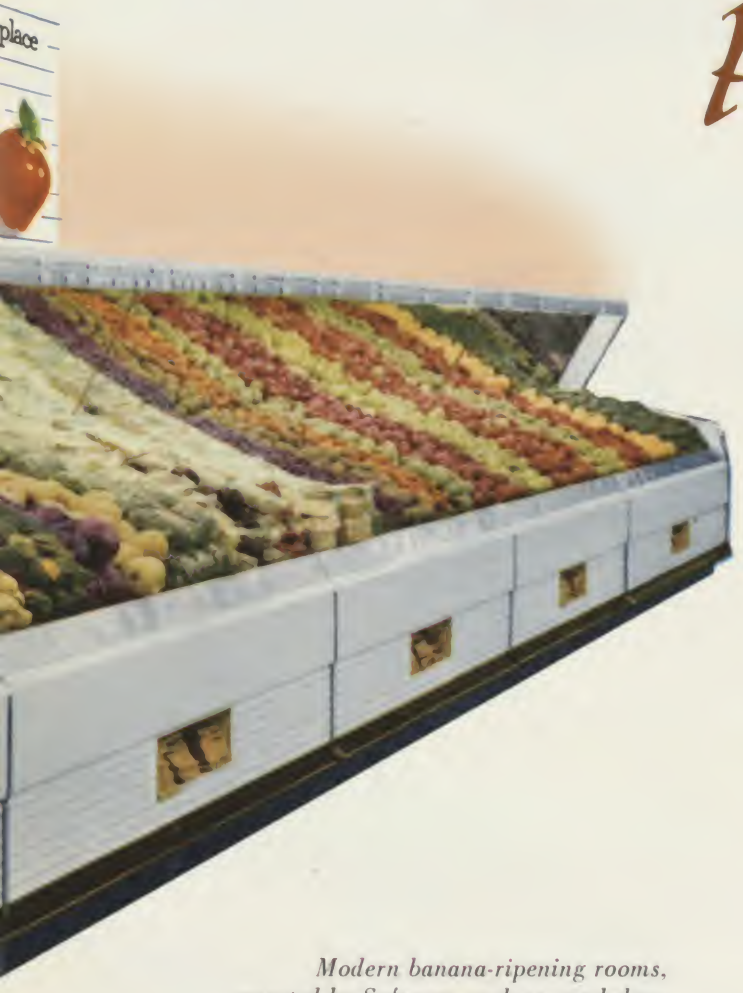
All Company activities are directed toward the end result of increased sales and profits. Among the more important categories is the erection of new facilities and improvement of older ones to better serve and please the customer. This includes not only the building and remodeling of retail stores, but also backstage warehouses and plants for the storage, handling and processing of merchandise. Constant improvement of facilities is essential to attract and hold new customers.

A second category which is receiving concentrated attention throughout the Company is the improvement of our produce operations and the building of a reputation with consumers for high quality fruits and vegetables. This offers one of the greatest opportunities to increase our business.

Our meat operations is the third category of business-building activity discussed in this report. Efforts to rebuild our meat operations and to re-establish our reputation for quality meats were renewed with the end of the unrealistic government control measures imposed during the Korean war. As in the case of fruits and vegetables, if we can attract and hold customers through our superior quality meats, we will increase our business in all sections of the store.

More details on these activities, all aimed to please the customer, are given on the following pages.

Colorful appetite-appealing billboards, item by item, tell prospective customers, "Safeway's the Place to Buy."



Modern banana-ripening rooms, operated by Safeway, such as one below, are equipped with electrically operated temperature controls.

Produce operations have always been regarded as important. The completion of modern facilities for the procurement and handling of produce, from the sources of supply to the retail locations, made it possible to launch a concerted campaign to improve our operations and to build a reputation among consumers, based on the theme, *"Safeway's the Best Place in Town to buy Produce."*

This campaign went into high gear in 1954 with practically all Company operations taking part. Easwest Produce Company, our centralized procurement organization, and Zone produce supply managers intensified their efforts to get adequate supplies of the finest quality available. Traffic, warehousing and trucking operations made sure quality was protected en route from the fields to the stores. Retail operations trained clerks to trim and handle produce properly in the stores. Specialists were put in charge of the Produce Sections.

Finally, when we were sure we could back up our claim to the best produce in town, a big reputation-building promotion campaign was launched. Appetite-appealing billboards in full color, like those on the opposite page, are being used, backed by a full scale newspaper campaign, retail price ads and store posters, as well as radio, television and car cards in some Zones.

Below, a Safeway buyer (center) inspects crops. Fieldmen located in all important growing areas keep in direct contact with growers and crop situations.

Recently opened store in Walnut Creek, Calif., is one of the 150 new locations planned for completion in 1955.

Largest Safeway to date is this

Facilities must be modern to attract and hold customers. Retail stores must be clean, well-lighted and attractive, with wide aisles and up-to-date fixtures which are fully adequate for displaying merchandise and refrigerating perishables. Cooler and freezer storage rooms are required to protect these perishables until they are put on sale. Off-street parking must be provided for customers, four-fifths of whom drive to the store. Three of our newer locations are shown on these pages. Not only must we provide these up-front facilities, but we must also have modern back-stage plants, warehouses and handling equipment to get the merchandise to the retail store efficiently and, in the case of perishables, at peak quality and attractiveness.

Some idea of the size of these back-stage facilities can be gained from the accompanying illustration of the Kansas City Distribution Center. Typically the vital back-stage facilities also include Sponsored Brand processing and packaging plants. And to keep stores, warehouses, plants and equipment operating efficiently many supply and service operations are necessary.

Right is architect's drawing of Kansas City Distribution Center. Grocery and Meat Warehouses, at each end, are now in operation. Produce, Frozen Foods, Dairy Products, Bakery Products and Mixed Load Warehouses are to be added. Safeway has four of these huge Centers in operation.

Market Street, San Francisco store with 39,060 square feet of floor space and parking for 215 cars is second largest Safeway.

ecently opened San Diego location with 40,080 square feet of floor space and parking for 175 cars.

In location cutting room specially-trained men, directed by a head meat cutter, prepare retail cuts from wholesale or "primal" cuts received from meat warehouse.

At left is backstage of a self-service meat operation, where wrappers prepare cuts for display, label each with identification of cut, weight, price per pound and total cost.

Meat operations are especially important because meat customers are very loyal to the store where they trade and are not easily lured away by a competitor's special prices. Safeway pioneered in the aging of beef and lamb by scientific methods, and in establishing meat trimming standards which give the consumer waste-free cuts. We were also one of the first to adopt a program of selling top quality U. S. Grades of meat.

Intensified efforts are now being made to improve our meat operations and more fully realize the potential for increased business. We have re-established our standards for close-trimmed meat cuts and top quality U. S. Grades. New plants for cutting and aging meat have been completed in four Divisions, and construction is underway or planned in several more. We have older aging plants in five Divisions.

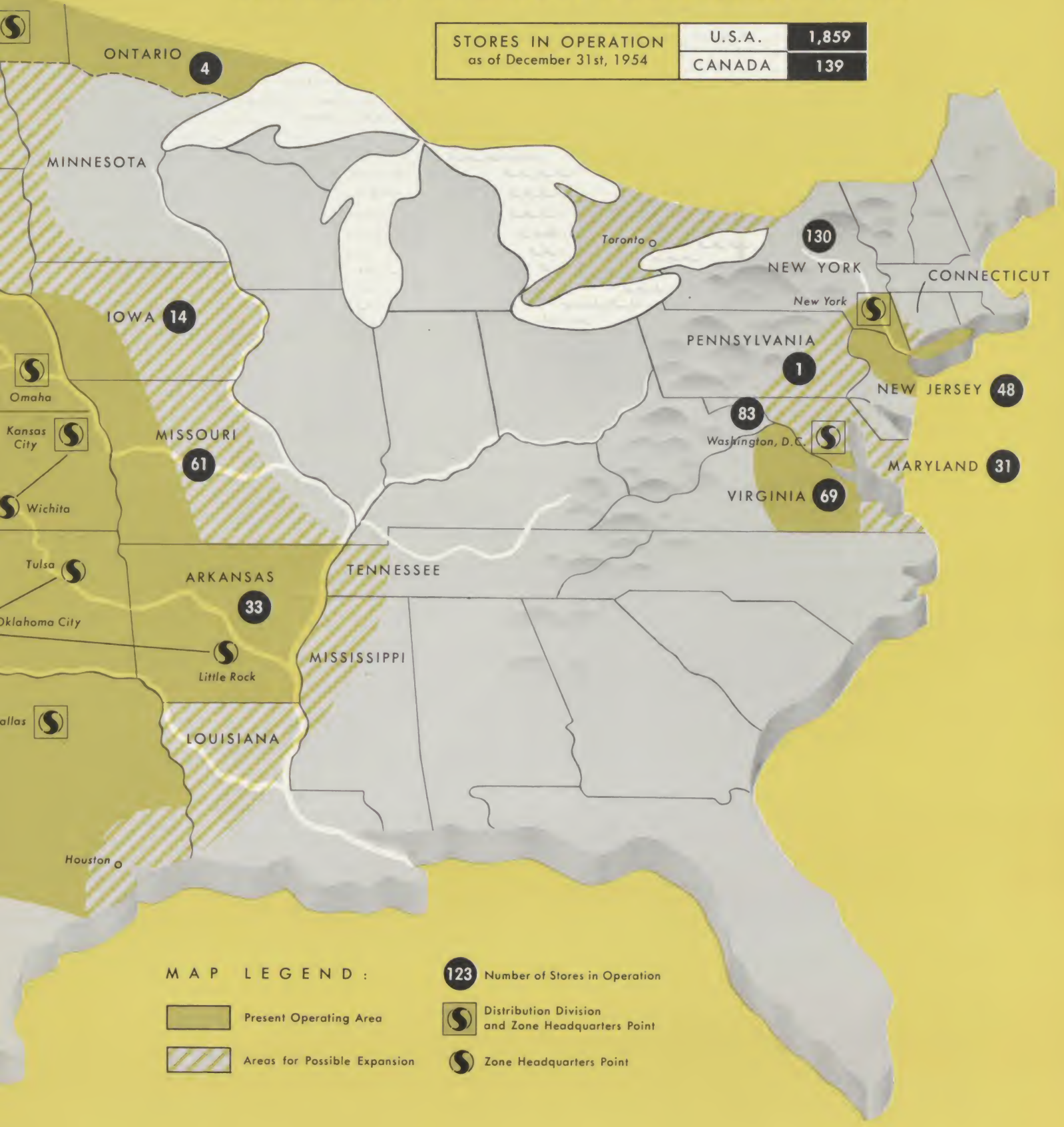
All of these improvements in our meat operations have helped to increase our business. In addition, in Zones where we have adequate aging facilities, we have launched an intensive advertising campaign to get more people to come in and try our fine meats. This campaign features aged beef and lamb on which we have an exclusive advantage, but it also emphasizes our close-trimmed cuts and high quality meats.

At right is one of Safeway's special meat aging rooms. Facilities for scientific aging give Safeway an exclusive advantage over competitors.

As of December 31, 1954, Safeway operated a total of 1,998 retail locations in 24 states, Washington, D. C. and five Canadian provinces. These locations are situated within geographical areas divided into 28 Zones under the supervision of 17 Distribution Divisions. The former Little Rock Division was combined with the Oklahoma City Division during the year, as a progressive step toward better utilization of existing facilities. Some 49,000 people are employed in all operations of the Company, an increase of 14,000 in the past four years.

Areas for possible future expansion are indicated on the map. In Toronto, Canada, a Distribution Center site has been acquired and store sites are being selected. Sites are being acquired for stores in Southwestern Connecticut. Plans are underway also for entering the Houston, Texas, area.

SAFEWAY STORES, INCORPORATED



SAFEWAY SPONSORED BRANDS

Shown above is a representative package of each of Safeway's Sponsored Brand products. There are additional sizes and varieties. Many are produced in the Company's own plants, others by outside manufacturers. Quality of all is rigidly controlled, and a system of "pull dates" protects freshness of perishables and semi-perishables in warehouses and stores.

SAFEWAY STORES, INCORPORATED (A MARYLAND CORPORATION)

Statement of Profit and Loss and Net Income Retained in the Business for the Year Ended December 31, 1954, with Comparative Figures for the Preceding Year

	1954	1953
Sales to Public	$1,638,078,011	$1,582,897,995
Sales to Affiliated Companies	4,276,993	3,059,148
Total	1,642,355,004	1,585,957,143
Cost of Sales	1,395,465,643	1,350,217,354
Gross Profit	246,889,361	235,739,789
Operating and Administrative Expenses	224,888,958	212,655,647
Operating Profit	22,000,403	23,084,142
Other Income:		
Parent Company's equity in earnings of subsidiaries	3,666,593	3,721,925
Interest received and sundry income	218,266	278,211
	3,884,859	4,000,136
	25,885,262	27,084,278
Other Charges:		
Interest	517,179	1,022,009
Loss on disposition of fixed assets (net)	16,751	430,195
	533,930	1,452,204
Profit Before Taxes on Income	25,351,332	25,632,074
Provision for Taxes on Income:		
Federal normal income tax and surtax	10,960,000	11,254,000
Federal excess profits tax—refund prior years	—	(470,122)
Other	407,561	303,464
	11,367,561	11,087,342
Net Profit for Year	13,983,771	14,544,732
Net Income Retained in the Business at Beginning of Year	58,335,653	52,560,100
	72,319,424	67,104,832
Deduct:		
Cash dividends:		
4½% Convertible preferred stock	—	741,294
4.30% Convertible preferred stock	767,421	—
4% Preferred stock	1,147,976	1,173,124
Common stock—$2.40 per share	8,336,264	7,090,916
Expenses of sale of 4.30% preferred stock	808,410	—
Transfer to additional paid-in capital of issue expense of 4½% and 4.30% preferred stock converted into common stock	(355,898)	(236,155)
	10,704,173	8,769,179
Net Income Retained in the Business at End of Year	$ 61,615,251	$ 58,335,653

See notes to financial statements

SAFEWAY STORES, INCORPORATED (A MARYLAND CORPORATION)

Statement of Financial Position

as of December 31, 1954, with Comparative Figures for the Preceding Year

	1954	1953
Current Assets:		
Cash	$ 45,325,542	$ 45,426,843
Accounts receivable—less allowance for uncollectible accounts 1954, $61,923 and 1953, $65,583	2,152,547	2,382,339
Due from sale of properties	215,863	1,706,148
Due from subsidiaries	1,635,870	87,732
Merchandise inventories—at lower of cost or market	107,127,973	98,864,534
Prepaid insurance, taxes, rents, supplies, etc.	8,000,301	6,709,404
Properties for sale under the Company's real estate program	41,175,713	26,199,780
Total Current Assets	$205,633,809	$181,376,780
Deduct Current Liabilities:		
Notes payable to banks	$ —	$ 12,350,000
Accounts, mortgages and drafts payable	53,568,900	50,814,049
Accrued expenses	9,557,355	9,152,678
Due to subsidiaries	15,575,514	9,539,748
Dividends payable	571,724	438,106
Federal income taxes	11,624,174	11,894,470
Total Current Liabilities	$ 90,897,667	$ 94,189,051
Working Capital (Carried forward)	$114,736,142	$ 87,187,729
Current Assets per dollar of Current Liabilities	$2.26	$1.93

See notes to financial statements

SAFEWAY STORES, INCORPORATED (A MARYLAND CORPORATION)

Statement of Financial Position

as of December 31, 1954, with Comparative Figures for the Preceding Year

	1954	1953
Working Capital (Brought forward)	$114,736,142	$ 87,187,729
Investment in Subsidiaries	38,584,434	38,449,468
Notes Receivable and Miscellaneous Investments	3,173,586	1,107,513
Fixed Assets—at cost less depreciation of $2,091,969	10,993,451	11,451,990
Working Capital and Other Assets	$167,487,613	$138,196,700
Deduct:		
4.30% Convertible preferred stock (cumulative)—par value $100 per share —authorized and outstanding 266,882 shares	26,688,200	—
4% Preferred stock (cumulative)—par value $100 per share—authorized 508,136 shares—outstanding 283,414 shares (after deducting 4,350 shares in treasury)	28,341,400	29,188,600
4½% Convertible preferred stock (cumulative)—par value $100 per share	—	12,017,700
	$ 55,029,600	$ 41,206,300
Total Common Stockholders' Equity	$112,458,013	$ 96,990,400
Consisting of:		
Common stock — authorized 9,000,000 shares, par value $5 per share — outstanding 3,479,884.42 shares (after deducting 15,317.58 shares in treasury)	$ 17,399,422	$ 15,528,804
Additional paid-in capital	33,443,340	23,125,943
Net income retained in the business	61,615,251	58,335,653
Total Common Stockholders' Equity	$112,458,013	$ 96,990,400
Book value per share of common stock	$32.32	$31.23

See notes to financial statements

P E A T , M A R W I C K , M I T C H E L L & C O .

Accountants' Report

The Board of Directors,
Safeway Stores, Incorporated:

We have examined the statements of financial position of Safeway Stores, Incorporated and of its subsidiaries as of December 31, 1954 and the related statements of profit and loss and net income retained in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the current asset classification of properties described in the note to financial statements "Properties for Sale Under the Company's Real Estate Program," the accompanying statements of financial position and statements of profit and loss and net income retained in the business present fairly the financial position of Safeway Stores, Incorporated and its subsidiaries at December 31, 1954 and the results of their operations for the year then ended. Generally accepted accounting principles have been employed on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California,
February 23, 1955.

Notes to Financial Statements

Properties for Sale Under the Company's Real Estate Program. Under the Company's "buy-build-sell-lease" program these properties are for development, sale in due course, and lease-back.

Fixed Assets and Depreciation. Store, warehouse, plant, automotive, and other equipment used by Safeway Stores, Incorporated and its U. S. subsidiaries is leased from Cortland Equipment Lessors, Incorporated, which subsidiary has assigned the lease and all rentals thereunder as security for payment of its debentures. The debentures consist of $50,000,000 Series A, bearing interest of from 3% to 4%, maturing $5,000,000 annually and $25,000,000 Series B, bearing interest at 4¼%, which have a sinking fund requirement of $1,000,000 annually through the year 1964 and then $3,000,000 annually through 1968, and maturing in 1969.

The total amount included as depreciation expense for 1954 in the accompanying accounts is $18,117,909.

Properties Mortgaged. Included in the accompanying statements are land and buildings costing $9,854,034 which are mortgaged for $6,280,967.

Capital Stock. The terms of issue of each of the preferred stocks require sinking funds sufficient to provide for retirement annually of 2% of the maximum number of shares issued, with the requirement as to the 4.30% Preferred commencing October 1, 1965. The sinking fund requirements for 1955 amount to approximately $188,500 in the U. S. after considering stock held in the treasury which may be applied toward the requirement, and $130,000 in Canada. The preferred stocks are subject to redemption on call at a premium which is now $2.00 per share on the 4% preferred and $3.00 on the 4.30% convertible preferred and Canadian preferred, which become reduced periodically ultimately to 50 cents per share.

Of the unissued common stock of Safeway Stores, Incorporated, 580,178 shares are reserved for conversion of the outstanding 4.30% preferred stock convertible at par at $46.00 per share of common. Additionally, 133,315 shares of the common stock are reserved for issuance pursuant to a restricted stock option plan under which options to purchase common stock may be granted to officers and employees of the Company and its subsidiaries, as determined by the Board of Directors, in consideration of agreements not to terminate employment for stated periods. Under the plan options have been granted to officers and employees covering an aggregate of 108,315 shares (16,666 shares are not exercisable if employment is terminated prior to December 31, 1955 and 2,000 if terminated thereafter but prior to December 31, 1956), and options to purchase 25,000 shares have been authorized but not yet granted. Of the 108,315 shares, 38,315 are exercisable at $33⅞ per share; 64,000 at $36⅝ and 6,000 at $45⅜. All options become void after December 31, 1961 and unless exercised within 3 months after employment terminates, with 1 year extension on employee's death. In 1954, options for 13,352 shares of the common stock were exercised, and options for 3,333 shares expired.

Net Income Retained in the Business. Net income retained in the business of the parent company includes $8,179,726 of undistributed earnings of the subsidiaries and the parent company's investment in subsidiaries has been adjusted accordingly.

The accounts of the Canadian subsidiaries are reflected as U. S. funds at dollar for dollar.

Additional Paid-In Capital. Changes in Additional Paid-In Capital of Safeway Stores, Incorporated during the year consist of net discount on preferred stock acquired $41,705, excess of proceeds over par value of common stock issued under options exercised $406,623, excess of par value of preferred stocks over par value of common stock issued on conversion $10,224,967, less pro-rata share of original issue expense $355,898.

Employees' Retirement and Profit Sharing Plans. Payments by the Companies into the Employees' Retirement Plan Trust Funds for the year amounted to $2,295,938 in the U. S. and $238,553 in Canada. Payments to the Profit Sharing Plan Trustee for the year amounted to $3,205,516 in the U. S.

Contingent Liabilities and Commitments. (a) The liability for completion of contracts for the construction of plants, warehouses and retail store buildings not reflected in the financial statements amounted to approximately $22,000,000.

(b) The leases in effect as to all companies for stores, warehouses, and other properties number 2,766. Of these, 1,971 contain options to cancel. If the Company should exercise the options to cancel, it could be required to purchase 1,418 properties. The minimum annual rentals for the ensuing year under all leases (some of which contain percentage of sales clauses) and excluding any taxes, insurance and maintenance payable by the lessee amount to approximately $18,200,000 on properties in the U. S. and $946,000 on properties in Canada; these aggregate amounts decrease annually until the year 2001 as leases expire.

Condensed Statements of Profit and Loss and Net Income Retained in the Business for the Year Ended December 31, 1954

	Safeway Stores, Incorporated and Certain Subsidiaries	Cortland Equipment Lessors, Incorporated	Salem Commodities, Incorporated	Canada Safeway Limited and Subsidiaries	Consolidated
Sales and Revenue:					
Sales to public	$1,638,078,011	$ —	$ 17,230,422	$158,208,203	$1,813,516,636
Sales to parent and affiliated companies	4,244,050	—	417,547,660	304,950	—
Equipment rental received from parent company	—	20,182,633	—	—	—
Total	1,642,322,061	20,182,633	434,778,082	158,513,153	1,813,516,636
Cost of Sales	1,394,598,904	—	424,120,323	136,097,928	1,531,502,208
Gross Profit	247,723,157	20,182,633	10,657,759	22,415,225	282,014,428
Operating and Administrative Expenses	225,211,527	17,107,869	9,430,655	16,240,332	249,026,037
Operating Profit	22,511,630	3,074,764	1,227,104	6,174,893	32,988,391
Other Income:					
Parent Company's equity in earnings of subsidiaries	3,397,366	—	—	—	—
Interest received and sundry income	218,266	—	2,826	4,910	226,002
	3,615,632	—	2,826	4,910	226,002
	26,127,262	3,074,764	1,229,930	6,179,803	33,214,393
Other Charges:					
Interest on long-term debt	—	2,222,167	—	82,875	2,305,042
Other interest	517,179	1,009	649,589	182,495	1,350,272
Amortization of debenture issue expense	—	26,688	—	—	26,688
Loss on disposition of fixed assets	16,751	354,470	—	18,127	389,348
Dividends to public on preferred stock of a subsidiary	—	—	—	—	312,211
	533,930	2,604,334	649,589	283,497	4,383,561
Profit before Taxes on Income	25,593,332	470,430	580,341	5,896,306	28,830,832
Provision for Taxes on Income:					
Federal normal income tax and surtax	11,202,000	150,000	300,000	—	11,652,000
Other	407,561	22,500	—	2,765,000	3,195,061
	11,609,561	172,500	300,000	2,765,000	14,847,061
Net Profit for Year	13,983,771	297,930	280,341	3,131,306	13,983,771
Net Income Retained in the Business at Beginning of Year	58,335,653	996,308	882,007	1,826,703	58,335,653
	72,319,424	1,294,238	1,162,348	4,958,009	72,319,424
Deduct:					
Cash dividends to public:					
On preferred stock	1,915,397	—	—	312,211	1,915,397
On common stock	8,336,264	—	—	—	8,336,264
Expenses of sale of 4.30% preferred stock	808,410	—	—	—	808,410
Transfer to additional paid-in capital of issue expense of preferred stock converted into common stock	(355,898)	—	—	—	(355,898)
	10,704,173	—	—	312,211	10,704,173
Net Income Retained in the Business at End of Year	$ 61,615,251	$ 1,294,238	$ 1,162,348	$ 4,645,798	$ 61,615,251

See notes to financial statements

Condensed Statements of Financial Position as of December 31, 1954

	Safeway Stores, Incorporated and Certain Subsidiaries	Cortland Equipment Lessors, Incorporated	Salem Commodities, Incorporated	Canada Safeway Limited and Subsidiaries	Consolidated
ASSETS					
Current Assets:					
Cash	$ 46,244,389	$ 3,179,638	$ 3,735,237	$ 4,060,466	$ 57,219,730
Accounts receivable	2,182,499	—	1,059,381	2,033,913	5,275,793
Due from sale of properties	215,863	—	—	5,424	221,287
Due from parent and affiliated companies	1,635,968	4,868,637	9,505,280	—	—
Merchandise inventories—at lower of cost or market	107,634,925	—	23,749,539	14,123,178	145,507,642
Prepaid expenses and supplies	8,179,141	5,498	595,164	459,064	8,213,867
Properties for sale under the Company's real estate program	41,175,713	—	—	3,265,163	44,440,876
Total Current Assets	207,268,498	8,053,773	38,644,601	23,947,208	260,879,195
Investment in subsidiaries	36,251,791	—	—	—	—
Notes receivable and miscellaneous investments	3,173,586	—	—	48,875	3,222,461
Fixed Assets:					
Cost	13,085,420	159,361,827	37,389	11,299,730	183,784,366
Less depreciation	2,091,969	69,890,695	29,977	5,278,852	77,291,493
Net Fixed Assets	10,993,451	89,471,132	7,412	6,020,878	106,492,873
Unamortized debenture issue expense	—	1,081,084	—	—	1,081,084
Total	$257,687,326	$ 98,605,989	$38,652,013	$30,016,961	$371,675,613
LIABILITIES					
Current Liabilities:					
Notes and debentures payable	$ —	$ 6,000,000	$20,000,000	$ 5,150,000	$ 31,150,000
Accounts, mortgages and drafts payable	53,855,303	92,962	9,593,088	6,331,172	69,872,525
Accrued expenses	9,576,187	532,166	392,063	664,462	11,164,878
Dividends payable	571,724	—	—	26,018	597,742
Due to parent and affiliated companies	14,286,880	1,522,856	—	200,149	—
Federal and Canadian income taxes	11,909,619	218,076	319,071	1,461,789	13,908,555
Total Current Liabilities	90,199,713	8,366,060	30,304,222	13,833,590	126,693,700
Debentures payable—long term	—	69,000,000	—	2,250,000	71,250,000
Rent received in advance	—	1,025,000	—	—	—
Preferred stocks of subsidiary held by public	—	—	—	6,244,300	6,244,300
Equity of Safeway Stores, Incorporated:					
Common stock	—	300,000	300,000	2,800,000	—
Additional paid-in capital	—	18,620,691	6,885,443	243,273	—
Net income retained in the business	—	1,294,238	1,162,348	4,645,798	—
Total Equity of Safeway Stores, Incorporated	—	20,214,929	8,347,791	7,689,071	—
Equity of stockholders of parent company:					
Preferred stockholders	55,029,600	—	—	—	55,029,600
Common stockholders	112,458,013	—	—	—	112,458,013
Total	$257,687,326	$ 98,605,989	$38,652,013	$30,016,961	$371,675,613

See notes to financial statements

SAFEWAY STORES INCORPORATED

A MARYLAND CORPORATION

as of December 31st, 1954

MILTON L. SELBY

ARTEMUS L. GATES

NORMAN CHANDLER

W. S. MITCHELL

Executive Officers

LINGAN A. WARREN, *President*
C. N. SANDERS, *Vice President*
DWIGHT COCHRAN, *Vice President*
A. R. GRIFFITH, *Vice President*
G. T. BURROUGHS, *Vice President*
MILTON L. SELBY, *Secretary-Treasurer*
W. S. MITCHELL, *Controller*

Executive Offices

4th and Jackson Streets,
Oakland, California

Transfer Agents

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK
New York, New York

LINCAN A. WARREN

A. R. GRIFFITH

DWIGHT COCHRAN

C. N. SANDERS

G. T. BURROUGHS

Directors

THE CROCKER FIRST NATIONAL
BANK OF SAN FRANCISCO
San Francisco, California

Registrars

CITY BANK
FARMERS TRUST COMPANY
New York, New York

BANK OF CALIFORNIA,
NATIONAL ASSOCIATION
San Francisco, California

Auditors

PEAT, MARWICK, MITCHELL & CO.

Corporate Counsel

CHADBOURNE, HUNT, JAECKEL & BROWN
New York, New York

SHOP
SAFEWAY